

Rating: Buy
S&P 500: 1302

CNOOC Limited

Volume Growth and Commodity Price

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	8,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	86.40	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/28/06	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (US\$mm)</i>	35,500	<i>PV/Ebitda</i>	4.7
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	51
<i>Enterprise Value (EV) (US\$mm)</i>	35,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	52.01
<i>Present Value (PV) (US\$mm)</i>	40,300	<i>Present Value Proven Reserves(US\$/boe)</i>	17.07
<i>Net Present Value (US\$/share)</i>	98	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.84
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.92
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.3	<i>Indicated Annual Dividend (US\$/sh)</i>	2.83

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

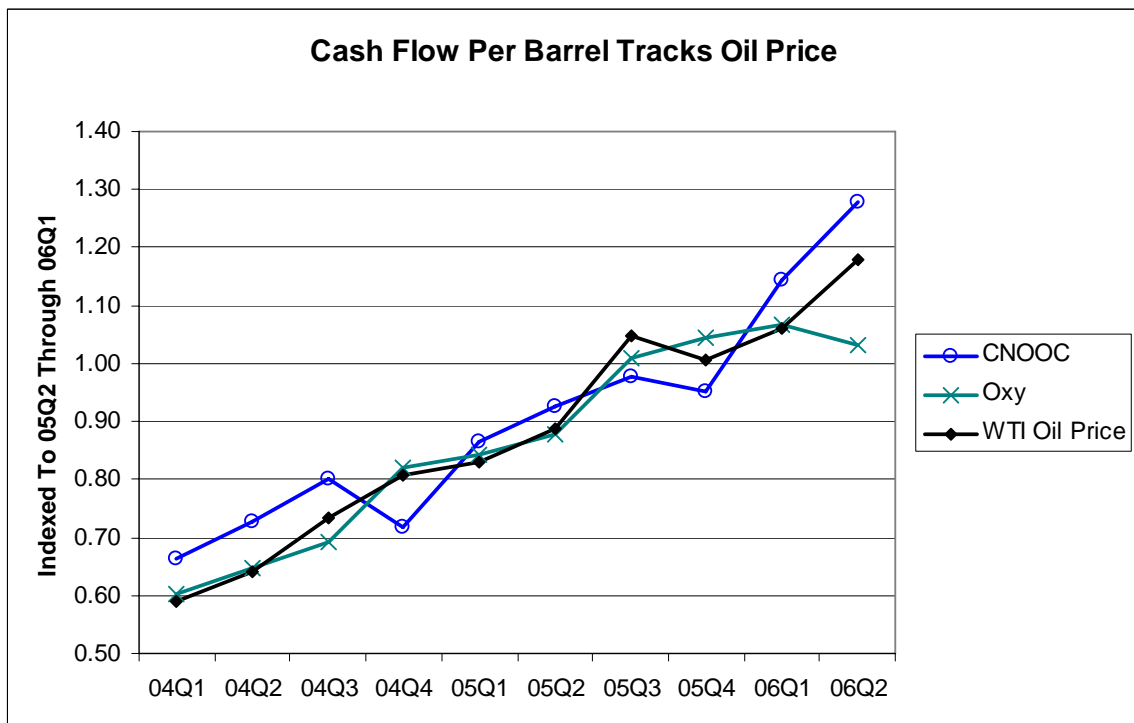
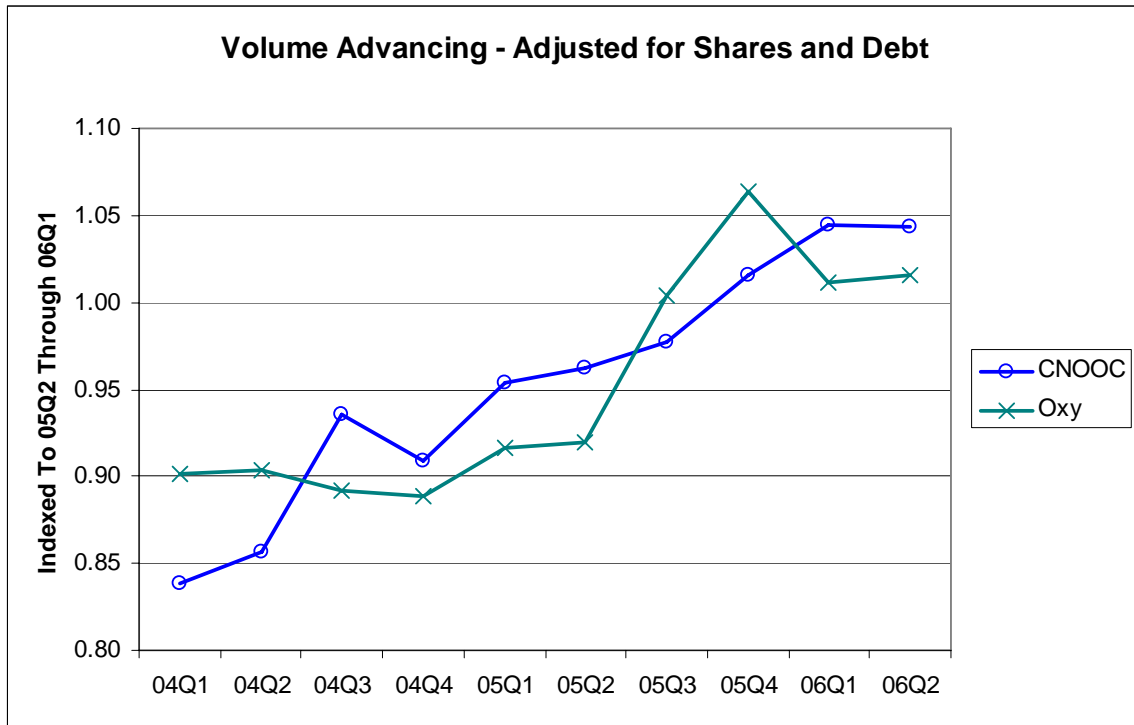
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.
The Peoples Republic of China holds 71% of the outstanding shares.

Summary and Recommendation

Buy-recommended **CNOOC Limited (CEO)** offers prospective 13% appreciation to estimated net present value (NPV) of \$98 a share that presumes a long-term benchmark crude oil price of \$60 a barrel. The estimate of NPV was revised from \$84 a share on June 6 when we revised our oil price from \$50 a barrel. The current futures quote for the next six years is \$72 a barrel while our vision for 2010 is \$150. Including results reported on August 29, the company has a strong volume trend likely to shift more to natural gas in the future (see chart). Cash flow has been expanding with crude oil price (see chart). Those simple relationships have prevailed despite a temporary “special oil gain levy” also known to political opportunists as a windfall profits tax. In the end, China has a critical need for more natural gas and oil, not only for economic growth, but also because the country burns far too much high-polluting coal as a substitute. CNOOC stock combines participation in rich energy resources and the promise of profitable growth projects.

Kurt H. Wulff, CFA

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CNOOC Limited
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	450	22.5	9.6	4,300	11%
Oil	7,850	8.0	4.6	36,000	89%
	8,300	10.7	4.9	40,300	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					40,300
Shares (mm)					411
Net Present Value - Standard Estimate (US\$/sh)					98
Net Present Value - Approximation by Correlation (US\$/sh)					108

CNOOC Limited
Quarterly Operations

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>6/30/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>6/30/07</i>	<i>Months</i>
									<i>6/30/07</i>
Volume									
Natural gas (bcf)	34	142	35	43	44	45	166	46	179
Natural Gas (mmcf)	369	390	390	467	476	486	455	506	491
Days	91	365	90	91	92	92	365	91	365
Oil (mmb)	32	130	35	34	34	34	137	34	135
Oil (mbd)	357	358	384	371	371	371	374	371	371
Total gas & oil (bcf)	229	925	242	245	248	249	985	248	991
Total gas & oil (mbd)	419	423	449	449	450	452	450	455	453
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.76	8.65	8.97	6.81	6.54	8.69	7.75	8.30	8.64
Company	2.95	2.77	3.10	3.23	3.23	3.23	3.20	3.23	3.23
Oil (\$/bbl)									
WTI Cushing	53.05	56.31	63.33	70.47	71.51	72.48	69.45	75.27	73.43
Company	43.91	47.31	58.13	70.82	71.86	72.85	67.37	75.65	73.79
Total gas & oil (\$/mcf)	6.68	7.10	8.73	9.76	10.43	10.54	9.87	10.87	10.66
Revenue (\$mm)									
Natural Gas	99	395	109	137	141	144	532	148	578
Oil	1,427	6,174	2,009	2,252	2,451	2,485	9,197	2,552	9,985
Other									
Total	1,526	6,569	2,118	2,389	2,593	2,629	9,729	2,701	10,564
RMB/\$	8.28		8.05	8.01	7.98	7.98		7.98	

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CNOOC Limited
Half-Year Financial Results

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Twelve</i>
	<i>6/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>6/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>6/30/07</i>	<i>Months</i>
								<i>6/30/07</i>
Revenue (mmRMB)								
Natural Gas (from Q table)	1,478	1,714	3,192	1,975	2,280	4,255	2,334	4,614
Oil (from Q table)	21,956	27,990	49,946	34,213	39,391	73,604	40,293	79,684
Other	1,300	762	2,062	(713)		(713)	-	-
Total	24,734	30,466	55,200	35,475	41,671	77,146	42,627	84,298
Expense								
Fixed	1,484	3,483	4,967	4,247	4,247	8,493	4,247	8,493
Variable	1,484	3,483	4,967	4,247	4,890	9,137	5,002	9,892
Ebitda	20,467	22,738	43,205	27,694	32,534	60,229	33,378	65,912
Exploration	611	600	1,211	709	709	1,418	709	1,418
Deprec., Deplet., & Amort.	2,787	2,732	5,519	3,366	3,366	6,732	3,366	6,732
Ebit	17,069	19,406	36,475	23,619	28,459	52,079	29,303	57,762
Interest	-	-	-	-	-	-	-	-
Ebt	17,069	19,406	36,475	23,619	28,459	52,079	29,303	57,762
Income Tax	5,143	5,835	10,978	7,581	9,961	17,542	10,256	20,217
Net Income	11,926	13,571	25,497	16,038	18,499	34,537	19,047	37,545
Shares (millions)	41,124	41,124	41,124	41,124	41,124	41,124	41,124	41,124
Per share (RMB)	0.29	0.33	0.62	0.39	0.45	0.84	0.46	0.91
Ebitda Margin	83%	75%	78%	78%	78%	78%	78%	78%
Tax Rate	30%	30%	30%	32%	35%	34%	35%	35%

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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